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BELLSOUTH TELECOMMUNICATIONS, INC.

**REBUTTAL TESTIMONY OF ALPHONSO J. VARNER**

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2000-0122-C

APRIL 10, 2000

S. C. PUBLIC SERVICE COMMISSION  
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UTILITY DEPARTMENT

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- 7 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH
- 8 TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR
- 9 BUSINESS ADDRESS.
- 10
- 11 A. My name is Alphonso J. Varner. I am employed by BellSouth as Senior
- 12 Director for State Regulatory for the nine-state BellSouth region. My business
- 13 address is 675 West Peachtree Street, Atlanta, Georgia 30375.
- 14
- 15 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?
- 16
- 17 A. Yes. I filed direct testimony and one exhibit in this proceeding on March 6,
- 18 2000.
- 19
- 20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?
- 21
- 22 A. The purpose of my testimony is to respond to the direct testimony of the
- 23 witness for MCI WorldCom, Mr. Greg Darnell filed on April 3, 2000. My
- 24 comments are primarily directed to Mr. Darnell's proposal that the
- 25 Commission adopt a wire center methodology for establishing deaveraged

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1           UNE prices in South Carolina.

2

3   Q.    HOW DOES MR. DARNELL PROPOSE THAT UNE PRICES BE  
4           DEAVERAGED IN SOUTH CAROLINA?

5

6   A.    Mr. Darnell proposes that the geographic zones where deaveraged UNE prices  
7           apply be based on individual wire centers without regard to their location.  
8           BellSouth proposes that wire centers in the same rate group should be in the  
9           same zone. Mr. Darnell has provided two significantly different proposals, and  
10          it is not clear which one he recommends. Indeed, the results of Mr. Darnell's  
11          two proposals demonstrate their arbitrary nature. Obviously, widely varying  
12          results were obtained through the choice of which allocation method was used  
13          to assign wire centers to zones.

14

15   Q.    WHY SHOULD ZONES BE DEFINED BASED ON RATE GROUPS  
16          INSTEAD OF WIRE CENTERS?

17

18   A.    Defining zones by rate groups applies a consistent method that recognizes the  
19          proximity of customers to each other. BellSouth's proposed prices equal total  
20          element long run incremental cost ("TELRIC") to reflect geographic  
21          differences. The existing local exchange rate groups were grouped into three  
22          zones in South Carolina. The proposed price is the average TELRIC cost in  
23          that zone. Utilizing local exchange rate groups to deaverage UNEs provides  
24          consistency between the structure of BellSouth's retail, resale and UNE prices.  
25          Further, customers who are located in the same geographic area and who have

1 similar calling areas will be in the same deaveraged zone for UNE pricing.  
2 Simply using existing rate groups as the basis for establishing pricing zones  
3 results in consistent prices for customers within the same geographic markets.  
4  
5 Q ALTHOUGH HIS TESTIMONY DOES NOT CONTAIN PAGE NUMBERS,  
6 MR. DARNELL'S 4<sup>th</sup> PAGE SUGGESTS THAT THE USE OF RATE  
7 GROUPS TO DEAVERAGE UNE RATES IS A VIOLATION OF THE  
8 FCC'S RULES. DO YOU AGREE?  
9  
10 A. No. BellSouth's proposed approach to deaverage UNE rates using rate groups  
11 would not violate the FCC's Rules. BellSouth proposes deaveraging UNE  
12 prices to reflect the forward-looking economic cost differences in three  
13 geographic areas. BellSouth's deaveraged prices will be the forward-looking  
14 economic cost for the zone where that price applies. Mr. Darnell is confusing  
15 defining the geographic area (zone) with the determination of prices. Utilizing  
16 existing rate groups to define the geographic area is consistent with the FCC's  
17 Rules. In fact, the Rules actually propose using special access zones as one  
18 means of defining the area. The FCC's Rule 51.507(f) in part states, "existing  
19 density-related zone pricing plans described in § 69.123 of this chapter, or  
20 other such cost-related zone plans established pursuant to state law."  
21 Consequently, the FCC recognized that UNE pricing zones could be defined  
22 based on zones used for other services. The FCC does not require that zones  
23 be established as Mr. Darnell proposes.  
24  
25

1 Q. ON HIS 5<sup>TH</sup> PAGE, MR. DARNELL CONTENDS THAT BELL SOUTH'S  
2 PROPOSAL TO USE RATE GROUPS TO DEAVERAGE UNE RATES  
3 WOULD INSULATE ITS RETAIL PRICES FROM COST BASED  
4 COMPETITION. PLEASE COMMENT.

5  
6 A. Mr. Darnell is wrong. Our deaveraging proposal does not insulate any retail  
7 service prices nor is BellSouth attempting to do so. BellSouth's approach  
8 groups wire centers that are located close to each other in the same zone. Thus,  
9 it minimizes having different UNE prices to serve customers who are located  
10 close to each other. It also aligns the prices into areas with which customers  
11 are familiar. BellSouth's approach to deaveraging is different from MCI  
12 WorldCom's approach. In some cases the price of a loop under BellSouth's  
13 approach will be higher than MCI WorldCom's approach and in some cases  
14 MCI WorldCom's loop price will be higher. For example, using Mr. Darnell's  
15 Attachment 1, MCI WorldCom's approach would place the Easley Main  
16 (ESLYSCMA) wire center in Zone 3 (highest rated zone) versus BellSouth's  
17 rate group approach which would place Easley Main in Zone 1. There is  
18 nothing inappropriate about BellSouth's approach. In fact, MCI WorldCom's  
19 approach is inappropriate because it simply creates a patchwork of different  
20 prices without regard to the proximity of customers to each other or the serving  
21 areas with which they are familiar.

22  
23 Q. DO YOU HAVE ANY OTHER OBSERVATIONS ABOUT MR.  
24 DARNELL'S ATTACHMENTS?

25

1 A. Yes. As I noted earlier, it is unclear exactly which of Mr. Darnell's two  
 2 approaches MCI WorldCom is recommending for South Carolina. Attachment  
 3 1 represents the approach of dividing wire centers into three zones such that  
 4 one third of all access lines fall within each zone. With respect to his  
 5 Attachment 1 and relating again to the Easley Main example, according to MCI  
 6 WorldCom, the Easley Main wire center is in Zone 3, yet its cost per loop is  
 7 only 102.8% of the average loop cost in South Carolina. In fact, MCI  
 8 WorldCom's approach classifies any wire center with a loop cost in excess of  
 9 102.47% of the statewide average loop cost to be a Zone 3 central office.  
 10 Attachment 1 shows loop costs that vary between 58.11% and 369.24% of the  
 11 statewide average loop cost, but Mr. Darnell has set the cutoff for Zone 1 at  
 12 82.53% and Zone 2 at 102.8%. The result of setting the zones in this manner is  
 13 that Zones 1 and 2 consist of 37 wire centers while Zone 3 consists of 79 wire  
 14 centers. By establishing zones in this manner, MCI WorldCom seeks to insure  
 15 that the loops in the most attractive wire centers to MCI WorldCom would be  
 16 priced at the lowest prices while the vast majority of wire centers in South  
 17 Carolina are priced at the higher Zone 3 prices.

18  
 19 With respect to Mr. Darnell's Attachment 2, which represents a different  
 20 approach to geographic deaveraging, the resulting prices virtually assure that  
 21 no facilities-based residential competition will occur in Zone 3. The result of  
 22 this approach is a price in Zone 3 of \$58.35 per month, which is almost \$25 per  
 23 month more than the approach used in Attachment 1.

24  
 25

1 Q. MR. DARNELL STATES THAT BELL SOUTH'S RATE GROUP  
2 APPROACH DOES NOT COMPLY WITH THE FCC'S RULE 51.503. DO  
3 YOU AGREE?

4  
5 A. No. Mr. Darnell's statement is incorrect. The prices being deaveraged are the  
6 cost-based UNE prices adopted by this Commission in Docket No. 97-374-C.  
7 The deaveraging method employed by BellSouth uses the Benchmark Cost  
8 Proxy Model ("BCPM") adopted by the Commission in the Universal Service  
9 proceeding (Docket No. 97-239-C) which reflects cost differences among  
10 geographic areas. Both wire center costs and rate groups define the area where  
11 a specific price applies, not the means to establish the price level. As noted  
12 earlier, the FCC's Rule 51.507(f) allows deaveraging by using existing rate  
13 groups in that it specifically grants the state commissions the ability to  
14 establish geographically deaveraged prices using "existing density-related zone  
15 pricing plans described in § 69.123 of this chapter, or other such cost-related  
16 zone plans established pursuant to state law."

17  
18 Mr. Darnell is equally incorrect in his contention that BellSouth's rate group  
19 approach violates Rule 51.505(d) by considering the revenues of other services  
20 in the development of its deaveraged UNE prices. As stated, the basis for  
21 BellSouth's proposed deaveraged prices is the Commission-approved UNE  
22 prices. Revenues are not used anywhere in the development of deaveraged  
23 prices. Therefore, if the prices in a particular rate group were changed, such  
24 change would not affect the deaveraged UNE prices as proposed by BellSouth.  
25 BellSouth has simply used the existing rate groups to establish the zones to

1 which the deaveraged UNE prices apply. BellSouth's retail service revenues  
2 did not affect the development of geographically deaveraged UNE prices.

3  
4 Q. MR. DARNELL RECOMMENDS MCI WORLDCOM'S WIRE CENTER  
5 COST APPROACH BECAUSE HE SUGGESTS THAT UNE BILLING AND  
6 CALL RATING IS DONE BY WIRE CENTER. PLEASE COMMENT.

7  
8 A. Mr. Darnell is incorrect. BellSouth does not use wire centers to accomplish  
9 UNE billing for loops and call rating is irrelevant to loop prices. UNE billing  
10 for loops is done currently on a statewide averaged basis. Call rating is  
11 determined on a per call basis which has no applicability to billing for  
12 deaveraged UNE loops. Mr. Darnell's statement has no bearing on the  
13 appropriate method of reflecting geographic cost differences. Not only is his  
14 premise incorrect, it has no relevance to the conclusion drawn.

15  
16 Q. MR. DARNELL STATES THAT BELL SOUTH AGREED TO A WIRE  
17 CENTER COST APPROACH IN FLORIDA. PLEASE COMMENT.

18  
19 A. BellSouth entered into a stipulation with numerous other parties to establish  
20 interim deaveraged prices for Florida. BellSouth agreed to this approach on an  
21 interim basis because the Florida Commission had already established a  
22 generic proceeding to re-determine UNE prices, and geographic deaveraging  
23 will be addressed in that proceeding. Mr. Darnell discusses the Florida  
24 stipulation but fails to mention that MCI WorldCom signed a similar  
25 stipulation in Georgia in which UNEs are deaveraged based on rate groups.

1 More recently, MCI WorldCom also entered into a stipulation in Mississippi in  
2 which the zones were established using BellSouth's proposed rate group  
3 methodology.

4  
5 Q. ON HIS 9<sup>th</sup> PAGE, MR. DARNELL SUGGESTS THAT THE OBJECTIVE  
6 OF THIS PROCEEDING IS TO DEAVERAGE THE EXISTING AVERAGE  
7 UNE RATES. DO YOU AGREE?

8  
9 A. No. The objective of this proceeding is to comply with the FCC's Rule  
10 51.507(f), and the FCC requires BellSouth to deaverage the prices of  
11 unbundled network elements by May 1, 2000. Currently combined UNEs that  
12 include loops are not exempt from this requirement. However, Mr. Darnell  
13 incorrectly believes that the objective is only to establish deaveraged prices for  
14 existing UNEs. Nothing in the FCC's Rule or the Commission's March 22,  
15 2000 procedural order limits this deaveraging proceeding to existing UNEs.  
16 To the contrary, the Commission's March 22, 2000 Order specifically titled  
17 this docket; **Proceeding for BellSouth Telecommunications, Inc. to**  
18 **Establish Geographically Deaveraged Rates for Unbundled Network**  
19 **Elements and Network Element Combinations.** It is entirely appropriate for  
20 this Commission to address the appropriate prices for network element  
21 combinations in this proceeding. In addition, the FCC's Rule 51.315(b)  
22 requires that BellSouth make available combinations of network elements that  
23 are currently combined in its network, including the loop and port combination.  
24  
25 Further, Mr. Darnell's suggestion that the Commission establish interim



1 combination prices until the Commission adopts permanent prices in another  
2 proceeding is unnecessary. This Commission has already adopted a pricing  
3 methodology for UNEs in its June and September 1998 Orders in Docket No.  
4 97-374-C and BellSouth has applied that methodology in developing its cost  
5 studies for currently combined UNEs. In addition, the methodology adopted in  
6 this proceeding for deaveraging unbundled loops would also apply to loops  
7 contained in combinations. Therefore, nothing is to be gained by setting  
8 interim combination prices.

9  
10 Q. MR. DARNELL COMPLAINS THAT MCI WORLDCOM AND OTHER  
11 PARTIES HAVE NOT BEEN AFFORDED AN OPPORTUNITY TO  
12 PREPARE AND FILE THEIR OWN COST STUDIES FOR UNE  
13 COMBINATIONS. PLEASE COMMENT.

14  
15 A. Mr. Darnell's argument cannot be supported. First, the FCC lifted the stay of  
16 its deaveraging rule (51.507(f)) on November 2, 1999 and the FCC released its  
17 UNE Remand Order requiring BellSouth to provide currently combined UNEs  
18 on November 5, 1999. Therefore, MCI WorldCom has had the same amount  
19 of time to prepare and file cost studies for UNE combinations as BellSouth has  
20 had. That it did not undertake such an activity is the fault of MCI WorldCom  
21 and not BellSouth or this Commission.

22  
23 Second, MCI WorldCom cannot contend that it is unfamiliar with BellSouth's  
24 combination cost studies. Such studies have been the topic of discussion in  
25 lengthy proceedings in Georgia and North Carolina and have recently been at

1 issue in Alabama.

2

3 Third, BellSouth filed its cost studies in this proceeding on March 6, 2000  
4 which allowed MCI WorldCom four full weeks to review them prior to filing  
5 its own direct testimony. BellSouth never received a request, either informally  
6 or formally from MCI WorldCom for information relative to BellSouth's cost  
7 studies. MCI WorldCom's failure to actively seek information in order to  
8 either rebut BellSouth's cost studies or to file its own studies cannot be blamed  
9 upon BellSouth or the Commission.

10

11 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

12

13 A. Yes.

14

15 # 204408

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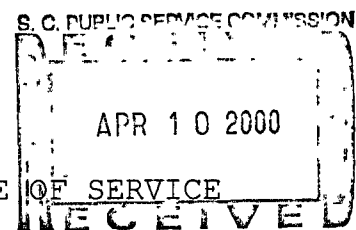
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STATE OF SOUTH CAROLINA  
COUNTY OF RICHLAND

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CERTIFICATE OF SERVICE



The undersigned, Nyla M. Laney, hereby certifies that she is employed by the Legal Department for BellSouth Telecommunications, Inc. ("BellSouth") and that she has caused the Rebuttal Testimony of Alphonso J. Varner to be served via hand delivery and addressed to the following this April 10, 2000:

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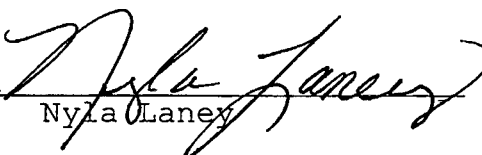
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